

Factors Affecting to Formal Accounting System in SME's in Sri Lanka

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Abstract

Small and Medium enterprise can't be ignored throughout the economic and social world because of the Small and Medium (SME) sector provides more contribution to Gross Domestic Product (GDP) and significant percentage has taken by SME sector in the Sri Lankan economy and also it is very much important for solving unemployment problem of the country. It is important to study how affect formal Accounting systems effect on the survival and growth of SMEs. Therefore, this study aims to identify what are the factors affect to the formal Accounting System in SME's in Sri Lanka. So, Financial Accounting Practices, Skills of Financial Accountant, Business Life Cycle, External Pressure and Capacity Argument are considered by the study as independent variables of the study that affect to the adoption formal accounting system for the SME's.

The study used Primary data of 60 Small and Medium Enterprises located in Kurunegala District. A well-structured questionnaire was used to collect data from the respondents of the study. Descriptive statistics and Correlation analysis were applied using SPSS software. The Results of the study revealed that there is a positive relationship between formal Accounting System and SME's Financial Accounting Practices, Skills of Financial Accountants and External Pressure.

Key Words: Formal Accounting System, SME's, Accounting Practices, Skills of Financial Accountants, External Pressure, Capacity Argument